

**REPORT OF THE AUDIT OF THE  
LAUREL COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2002**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE LAUREL COUNTY SHERIFF**

**For The Year Ended  
December 31, 2002**

The Auditor of Public Accounts has completed the Laurel County Sheriff's audit for the year ended December 31, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

#### **Financial Condition:**

Excess fees increased by \$11,796 from the prior year, resulting in excess fees of \$26,491 as of December 31, 2002. Revenues increased by \$305,633 from the prior year and disbursements increased by \$300,027.

#### **Debt Obligations:**

Total debt principal as of December 31, 2002, was \$18,567.

#### **Report Comments:**

- The Sheriff Should Eliminate Deficit In His Official Fee Account
- The Sheriff Should Present His Settlement To The Fiscal Court And Pay Excess Fees
- The Sheriff Should Avoid Paying Interest Charges From His Official Fee Account
- The Sheriff Should Account For All Receipts Properly
- The Sheriff Should Prepare A Receipts And Disbursements Ledger In Accordance With The Uniform System Of Accounts
- The Sheriff Should Publish His Annual Statement
- The Sheriff Should Submit Required Financial Reports To The Department For Local Government
- The Sheriff Should Submit Required Reports For Asset And Forfeiture Transactions
- The Sheriff Should Provide The Same Health Insurance Coverage To All Employees
- The Sheriff Should Comply With State And Federal Regulations Regarding The Withholding Of Taxes On All Wages
- The Sheriff Lacks Adequate Segregation Of Duties

#### **Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Lawrence Kuhl, Laurel County Judge/Executive  
Honorable Gene Hollon, Laurel County Sheriff  
Members of the Laurel County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Laurel County, Kentucky, for the year ended December 31, 2002. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2002, in conformity with the modified cash basis of accounting.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Lawrence Kuhl, County Judge/Executive  
Honorable Gene Hollon, Laurel County Sheriff  
Members of the Laurel County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 24, 2003, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Eliminate Deficit In His Official Fee Account
- The Sheriff Should Present His Settlement To The Fiscal Court And Pay Excess Fees
- The Sheriff Should Avoid Paying Interest Charges From His Official Fee Account
- The Sheriff Should Account For All Receipts Properly
- The Sheriff Should Prepare A Receipts And Disbursements Ledger In Accordance With The Uniform System Of Accounts
- The Sheriff Should Publish His Annual Statement
- The Sheriff Should Submit Required Financial Reports To The Department For Local Government
- The Sheriff Should Submit Required Reports For Asset And Forfeiture Transactions
- The Sheriff Should Properly Account For All Contract Labor Transactions
- The Sheriff Should Provide The Same Health Insurance Coverage To All Employees
- The Sheriff Should Comply With State And Federal Regulations Regarding The Withholding Of Taxes On All Wages
- The Sheriff Lacks Adequate Segregation Of Duties

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
May 14, 2004

LAUREL COUNTY  
 GENE HOLLON, COUNTY SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2002

Receipts

Federal Grants		\$	50,536
State Grants			76,478
State Fees For Services:			
Cabinet For Human Resources	\$	91	
Mental Incompetent Transport		8,857	
Juvenile Transport		7,468	
Other Services		63,683	
Transporting Prisoners		<u>6,358</u>	86,457
Circuit Court Clerk:			
Sheriff Security Service	\$	39,927	
Fines and Fees Collected		885	
Court Ordered Payments		<u>772</u>	41,584
Fiscal Court			
Fiscal Court Support	\$	480,000	
Transporting Juveniles		8,636	
Insurance Reimbursement		<u>43,110</u>	531,746
County Clerk - Delinquent Taxes			10,627
Commission On Taxes Collected	\$	472,564	
Sheriff's Add On Fees		83,654	
Second Notice On Property Taxes		11,375	
Transient Tax Commissions		<u>12,545</u>	580,138
Fees Collected For Services:			
Auto Inspections	\$	32,105	
Accident and Police Reports		1,305	
Carrying Concealed Deadly Weapon Permits		17,128	
Serving Papers		58,041	
Transporting Prisoners	\$	18,210	
Other Fees Collected For Services		<u>1,516</u>	\$ 128,305

The accompanying notes are an integral part of the financial statement.

LAUREL COUNTY  
 GENE HOLLON, COUNTY SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
 For The Year Ended December 31, 2002  
 (Continued)

Receipts (Continued)

Other:

Miscellaneous	\$	6	
Helicopter Fund Receipts (Note 4)		<u>663</u>	669

Interest Earned			4,805
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Borrowed Money:

Bank Note			<u>260,000</u>
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Total Receipts			<u>\$ 1,771,345</u>
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Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	962,421	
Contract Labor		222	

Employee Benefits-

Employer's Share Social Security		65,234	
KACo U. I. Fund		2,837	
Employer Paid Health Insurance		<u>128,049</u>	\$ 1,158,763

Contracted Services-

Professional Fees	\$	9,322	
Contracted Services-Other		<u>4,872</u>	14,194

Materials and Supplies-

Carrying Concealed Deadly Weapon Permits	\$	17,760	
Office Materials and Supplies		44,924	
Uniforms		<u>8,294</u>	70,978

Other Charges-

Helicopter Insurance	\$	2,000	
Telephone and Communications		53,170	
Conventions and Training		12,383	
Insurance		1,073	
Drug Program		354	
Dues and Subscriptions		100	
Bond		2,437	
Helicopter Fund Disbursements		663	
Miscellaneous		<u>6,456</u>	\$ 78,636

The accompanying notes are an integral part of the financial statement.

LAUREL COUNTY  
 GENE HOLLON, COUNTY SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
 For The Year Ended December 31, 2002  
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Auto Expense-		
Gasoline	\$ 59,411	
Maintenance	55,579	
Toll Cards	<u>176</u>	115,166
Capital Outlay-		
Equipment	\$ 8,127	
Vehicles	<u>19,696</u>	27,823
Debt Service:		
Bank Loan (Note 6)	\$ 200,000	
Interest	<u>11,446</u>	<u>211,446</u>
Total Disbursements		\$ 1,677,006
Less: Disallowed Disbursements-		
Interest on Bank Loans		<u>11,446</u>
Total Allowable Disbursements		<u>\$ 1,665,560</u>
Net Receipts		\$ 105,785
Less: Statutory Maximum	\$ 75,600	
Training Incentive	<u>3,694</u>	<u>79,294</u>
Excess Fees Due County For 2002		<u><u>\$ 26,491</u></u>

The accompanying notes are an integral part of the financial statement.

LAUREL COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year. A schedule of excess of liabilities over assets is included in this report as a supplemental schedule. The schedule indicates the cumulative effect of prior year deficits under the respective fee official.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months of the year and 6.34 percent for the last six months of the year.

LAUREL COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2002  
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2002, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bonds which named the Sheriff as beneficiary/obligee on the bonds.

Note 4. Helicopter Account

The Sheriff opened a bank account during 1999 which he uses for helicopter expenses. The balance on January 1, 2002, was \$820. The Sheriff had receipts totaling \$6 in interest income during the year and expenditures totaling \$663. As of December 31, 2002, the balance in the account was \$163. These funds are not available for use as excess fees.

Note 5. Asset Seizure Account

During 2000, the Sheriff received \$170,153 from the federal government from the return of asset seizures. These funds must be used for law enforcement purposes. The balance on January 1, 2002, was \$22,497. During the year, the bank account earned interest of \$247 and had expenditures totaling \$1,763. The account had an ending balance of \$20,981 as of December 31, 2002. These funds are not available for use as excess fees.

Note 6. Note Payable

The Sheriff's office is liable for a secured note payable to Cumberland Valley National Bank in the amount of \$60,000. The purpose of the note was for operating expenses of the Sheriff's office. The note matured March 12, 2003, and the interest rate was 5.95 percent. The full principal and interest were due upon maturity. The Sheriff did not make payment on March 12, 2003, as required. However, the Sheriff paid off the note on September 23, 2003, using funds provided by the fiscal court.

LAUREL COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2002  
(Continued)

Note 7. Leases

A. The Sheriff's office is committed to a lease agreement with Leasing One Corporation for two (2) vehicles. The total balance of the agreement was \$14,211 as of December 31, 2002.

B. The Sheriff's office is also committed to a lease agreement with Pitney Bowes, Inc. for a digital copier. The agreement requires a monthly payment of \$132 for 48 months to be completed in June 2005. The total balance of the agreement was \$4,356 as of December 31, 2002.

Note 8. Related Party Transactions

During the year ended December 31, 2002, the Laurel County Sheriff's office paid London Quick Lube a total of \$5,228 for vehicle maintenance. An employee of the Sheriff's office owns London Quick Lube. Because of the nature of the relationship between the business and the employee, the transactions are considered to be related-party transactions.

LAUREL COUNTY  
GENE HOLLON, COUNTY SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

December 31, 2002

Assets

Cash In Bank - All Accounts	\$ 33,328
Deposits in Transit	155,447
Receivables:	
Refund Due From Fiscal Court - 1997 Excess Fees	<u>7,365</u>
Total Assets	\$ 196,140

Liabilities

Paid Obligations:

Outstanding Checks	\$ 731
Liabilities Paid After December 31, 2002	159,529

Unpaid Obligations:

Laurel County -	
Excess Fees - 1998	\$ 20,237
Excess Fees - 2000	4,148
Excess Fees - 2001	14,695
Excess Fees - 2002	26,491
Laurel County Sheriff	
Underpayment of Salary for 2000	224
Underpayment of Salary for 2001	<u>2,111</u>
Total Unpaid Obligations	<u>67,906</u>
Total Liabilities	\$ <u>228,166</u>
Total Fund Deficit As Of December 31, 2002	<u><u>\$ (32,026)</u></u>

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## COMMENTS AND RECOMMENDATIONS



LAUREL COUNTY  
GENE HOLLON, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2002

1. The Sheriff Should Eliminate Deficit In His Official Fee Account

The Sheriff has a cumulative deficit of \$32,026 in his official fee account as of December 31, 2002. This deficit is the result of excess fees owed the fiscal court as follows: \$20,237 for 1998, \$4,148 for 2000, \$14,695 for 2001 and \$26,491 for 2002. The Sheriff is due a refund from the fiscal court for \$7,365 for overpayment of excess fees for 1997. The Sheriff is due additional salary for \$224 for 2000 and \$2,111 for 2001. Part of this deficit is the result of the Sheriff paying interest of \$2,452 during 2000, interest and late charges totaling \$5,256 during 2001 and interest of \$11,446 during 2002. We recommend the Sheriff eliminate this deficit and pay excess fees to the fiscal court and additional salary due.

*County Sheriff's Response:*

*I understand.*

2. The Sheriff Should Present His Settlement To The Fiscal Court And Pay Excess Fees

The Sheriff did not present his annual settlement to the fiscal court and pay excess fees. According to KRS 134.310(5) the sheriff shall file annually with his final settlement: (a) a complete statement of all funds received by his office for official services, showing separately the total income received by his office for services rendered, exclusive of commissions for collecting taxes, and the total funds received as commissions for collecting state, county, and school taxes; and (b) a complete statement of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses. KRS 134.310(6) states "at the time he files the statements required by subsection (5) of this section, the sheriff shall pay to the fiscal court any fees, commissions, and other income of his office, including income from investments, which exceed the sum of his maximum salary as permitted by the Constitution and other reasonable expenses, including the compensation of deputies and assistants. The settlement for excess fees and commissions and other income shall be subject to correction by audit conducted pursuant to KRS 43.070 or 64.810." We recommend the Sheriff comply with KRS 134.310 by presenting his annual settlement to the fiscal court and paying excess fees of \$26,491.

*County Sheriff's Response*

*We will comply.*

LAUREL COUNTY  
GENE HOLLON, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2002  
(Continued)

3. The Sheriff Should Avoid Paying Interest Charges From His Official Fee Account

The Sheriff paid \$11,446 in interest on bank loans he obtained for the operating expenses of his office. The Sheriff did not participate in the State Advancement Program. Technical Audit Bulletin 93-001 Section (3) states "any of the following practices shall be subject to an audit comment relating to Ky Const. S 173; KRS 61.190 and 132.601(1); and Funk v. Milliken, 317 S.W.2d 499 (KY 1958):

- Penalties paid on late payments
- Interest incurred on a personal loan by a sheriff who chooses not to participate in the Sheriff's Advancement Programs

We recommend the Sheriff comply with Technical Audit Bulletin #93-001 Section 3 and avoid paying for interest charges from his official bank account.

*County Sheriff's Response:*

*We will comply.*

4. The Sheriff Should Account For All Receipts Properly

The Sheriff is not accounting for receipts properly. Bank deposits are not made on a daily basis and daily checkout sheets are not maintained. The Sheriff is not preparing monthly bank reconciliations. According to Technical Audit Bulletin T.A.B. #93-002 Section 4, any of the following practices shall be subject to report as an audit comment relating to the noncompliance with the accounting and documentation provisions in KRS 64.840 and KRS 68.210:

- A collection of public funds, which is not recorded daily on a daily checkout sheet as provided in the Uniform System of Accounts as referenced in KRS 68.210
- The failure to reconcile daily check-out sheets with daily deposit totals; or
- Any official bank account statements that have not been reconciled monthly by a person other than the person who has signature authority or makes deposits to the official accounts

We recommend the Sheriff comply with Technical Audit Bulletin T.A.B. # 93-002 Section 4 by recording daily receipts on a daily checkout sheet, reconcile daily checkout sheets with daily bank deposits and reconciling bank account statements monthly by a person other than the one who has signature authority or makes deposits into the official accounts.

*County Sheriff's Response:*

*We understand and are complying with this now.*

LAUREL COUNTY  
GENE HOLLON, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2002  
(Continued)

5. The Sheriff Should Prepare A Receipts And Disbursements Ledger In Accordance With The Uniform System of Accounts

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The Sheriff's receipts and disbursements ledgers were not prepared in accordance with the Uniform System of Accounts. The reports given to auditors during the audit did not have a recap of receipts and disbursements by month. Also there were receipts that were not recorded on the receipts ledger but were deposited into the bank. Disbursements for which the Sheriff was later reimbursed were netted out on the Sheriff's financial report. Payroll disbursements on the profit and loss statement given to us did not agree with the W-2 forms. According to KRS 68.210 "the administration of the county uniform budget system shall be under the system of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe and shall install, by July 1, 1985, a system of uniform accounts for all counties and county officials. Subsequent to every regular and extraordinary session of the general assembly he shall review the county uniform budget system to determine if it is consistent with state law and generally accepted accounting practices. If he finds the system to be inconsistent with state law or to contain obsolete accounting practices, he shall revise it accordingly." We recommend the Sheriff comply with KRS 68.210 by maintaining a receipts and disbursements ledger in accordance with the Uniform System of Accounts.

*County Sheriff's Response:*

*We will comply.*

6. The Sheriff Should Publish His Annual Statement

The Sheriff did not publish his annual financial statement. KRS 424.220 (6) & (8) states "the Sheriff shall, within sixty days after the close of the Sheriff's fiscal year, cause the financial statement to be published in full in a newspaper qualified under KRS 424.120 to publish advertisements for the county. Promptly after publication is made, the Sheriff shall file a written or printed copy of the advertisement with proof of publication, in the office of the county clerk of the county and with the Auditor of Public Accounts. Promptly after publication is made, the Sheriff shall also file one (1) copy of the financial statement with the Kentucky Department For Local Government." We recommend the Sheriff comply with KRS 424.220 by publishing his annual financial statement.

*County Sheriff's Response:*

*We will comply and are complying now.*

LAUREL COUNTY  
GENE HOLLON, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2002  
(Continued)

7. The Sheriff Should Submit Required Financial Reports To The Department For Local Government

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The Sheriff did not submit the required financial reports to the Department For Local Government for 2002. KRS 68.210 states that the Sheriff shall file financial reports with the Department For Local Government. We recommend the Sheriff comply with KRS 68.210 by submitting the required reports to the Department For Local Government.

*County Sheriff's Response:*

*We understand and are complying now.*

8. The Sheriff Should Submit Required Reports For Asset And Forfeiture Transactions

The Sheriff did not submit the required reports for asset and forfeiture transactions. Each law enforcement agency seizing money or property pursuant to KRS 218A.415 shall, at the close of each fiscal year, file a statement with the Auditor of Public Accounts and with the secretary of justice containing a detailed listing of all money and property seized in that fiscal year and the disposition thereof. The listing shall identify all property so seized. Any agency failing to report as required by this section shall be liable to the state for the full value of all property and money seized. The Attorney General shall institute civil actions for recovery of money or property obtained or retained in violation of KRS 218A.405 to 218A.460. The Auditor of Public Accounts, the Secretary of Justice, or the Attorney General may at any time initiate an inquiry to determine that any agency is utilizing proceeds from the fund established in KRS 218A.435 in accordance with law, or an inquiry to determine that property is being forfeited as required by KRS 218A.405 to 218A.460. We recommend the Sheriff comply with the above statutes by submitting the required reports.

*County Sheriff's Response:*

*We will comply.*

9. The Sheriff Should Provide The Same Health Insurance Coverage To All Employees

The Sheriff purchased health insurance for his employees during 2002 from monies generated from fee account business. The Sheriff's fee account paid for 80% of all health insurance premiums leaving the employees' share to be 20%. The Sheriff's office has a policy and procedures manual dated January 3, 1994, however it does not specify any benefits for health insurance. The Fiscal Court pays 100% for a single plan and 80% of a family plan. We recommend the Sheriff comply with the Fiscal Court's personnel policy in the payment of health insurance premiums for employees.

*County Sheriff's Response:*

*We will comply.*

LAUREL COUNTY  
 GENE HOLLON, COUNTY SHERIFF  
 COMMENTS AND RECOMMENDATIONS  
 For The Year Ended December 31, 2002  
 (Continued)

10. The Sheriff Should Comply With State And Federal Regulations Regarding The Withholding Of Taxes On All Wages

The Sheriff was paid a total of \$ 3,694 in incentive pay for additional training. Taxes were not withheld from this payment nor was a W-2 issued. KRS 141.310 states "Every employer making payment of wages on or after January 1, 1971 shall deduct and withhold upon the wages a tax determined under KRS 141.315 or by the tables authorized by KRS 141.370." According to KRS 141.335 an annual withholding statement is to be furnished to each employee that includes the following:

- (a) the name of such person
- (b) the name of the employee and his social security account number
- (c) the total amount of wages as defined in KRS 141.010
- (d) the total amount deducted and withheld as tax under KRS 141.310 and KRS 141.315.

We recommend the Sheriff comply with these statutes and with all local, state and federal regulations regarding the withholding of taxes from wages by withholding taxes and issuing a W-2 for all wages paid.

*County Sheriff's Response:*

*We will comply.*

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

The Sheriff Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend the following compensating controls be implemented to offset this internal control weakness.

- The Sheriff should periodically review the daily checkout sheet and daily bank deposits. The daily checkout sheet should agree to the daily receipts ledger and any differences noted should be investigated.
- The Sheriff should periodically compare invoices to payments. The Sheriff could document this by initialing the invoices.
- The Sheriff should prepare a monthly bank reconciliation that should reconcile to the receipts and disbursements ledgers. Any differences should be investigated.
- The Sheriff should require two (2) signatures on all checks written.

*County Sheriff's Response:*

*We understand.*

LAUREL COUNTY  
GENE HOLLON, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2002  
(Continued)

PRIOR YEAR:

- The Sheriff Should Eliminate Deficit In His Official Fee Account
- The Sheriff Should Present His Settlement To The Fiscal Court And Pay Excess Fees
- The Sheriff Should Avoid Paying Interest Charges From His Official Fee Account
- The Sheriff Should Account For All Receipts Properly
- The Sheriff Should Publish His Annual Statement
- The Sheriff Should Submit Required Financial Reports To The Department For Local Government
- The Sheriff Should Submit Required Reports For Asset And Forfeiture Transactions
- The Sheriff Should Properly Account For All Contract Labor Transactions
- The Sheriff Should Provide The Same Health Insurance Coverage To All Employees
- Lacks Adequate Segregation Of Duties
-

REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Lawrence Kuhl, Laurel County Judge/Executive  
The Honorable Gene Hollon, Laurel County Sheriff  
Members of the Laurel County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Laurel County Sheriff for the year ended December 31, 2002, and have issued our report thereon dated September 24, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Laurel County Sheriff's financial statement for the year ended December 31, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Eliminate Deficit In His Official Fee Account
- The Sheriff Should Present His Settlement To The Fiscal Court And Pay Excess Fees
- The Sheriff Should Avoid Paying Interest Charges From His Official Fee Account
- The Sheriff Should Account For All Receipts Properly
- The Sheriff Should Prepare A Receipts And Disbursements Ledger In Accordance With The Uniform System Of Accounts
- The Sheriff Should Publish His Annual Statement
- The Sheriff Should Submit Required Financial Reports To The Department For Local Government
- The Sheriff Should Submit Required Reports For Asset And Forfeiture Transactions
- The Sheriff Should Provide The Same Health Insurance Coverage To All Employees
- The Sheriff Should Comply With State And Federal Regulations Regarding The Withholding Of Taxes On All Wages



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Laurel County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the lack of adequate segregation of duties to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
May 14, 2004

